

Message Text

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67

ORIGIN ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 ACDA-07

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DRAFTED BY ARA-LA/EP/P - FBCORRY:GFH

APPROVED BY ARA - HEWSON A. RYAN

ARA/EP - RWEBER

ARA/PLC - PSTORING

COMM - HLINDOW

DOD/ISA - COL. THOMAS

ARA - GBROWN

TREASURY - FMARESCA

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P 062232Z JUL 76

FM SECSTATE WASHDC

TO AMEMBASSY LIMA PRIORITY

S E C R E T STATE 167112

E.O. 11652: GDS

TAGS: PFOR, PE, EXIM

SUBJECT: PRE-IG REVIEW OF FY 77-78 CASP PERU

1. ON MAY 25 PRE-IG MEETING REVIEWED EMBASSY'S DRAFT OF
FY 77-78 CASP PERU. IN GENERAL, PARTICIPANTS FOUND DRAFT
EXCELLENT AND AMBASSADOR'S OVERVIEW TO BE SUCCINCT STATE-
MENT OF CURRENT SITUATION. HOWEVER, PRE-IG PARTICIPANTS
SUBSEQUENTLY AGREED THAT A FOURTH ISSUE BE ADDRESSED:
HOW SHOULD THE USG RESPOND TO THE PROBLEMS CREATED BY
PERU'S CONTINUING EXTENSIVE PROCUREMENT OF MILITARY
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EQUIPMENT. AMONG POINTS WE WOULD LIKE COVERED ARE:

(A) LEVEL OF MILITARY EXPENDITURES, WHAT IS PURPOSE, AND
TO WHAT EXTENT ARE THESE EXPENDITURES DRAWING RESOURCES
AWAY FROM ECONOMIC DEVELOPMENT; (B) ARE PERUVIAN MILITARY

EXPENDITURES LEADING TO A REGIONAL ARMS RACE; (C) SHOULD THE USG APPEAR TO BE ENCOURAGING LARGE MILITARY EXPENDITURES BY PROVIDING FMS CREDITS AND APPROVING OTHER FMS SALES. PARTICIPANTS AGREE THAT IG REVIEW OF THIS ISSUE SHOULD BE HELD THIRD WEEK OF JULY. WOULD WELCOME EMBASSY COMMENTS, PARTICULARLY ON SUBSTANCE OF ISSUE OUTLINED ABOVE.

2. SUGGESTED CHANGES.

A. SUMMARY OF LONG-TERM US INTERESTS IN PERU. (1) PAGE 8 PARA 1. REPLACE SECOND AND THIRD SENTENCES WITH FOLLOWING: "PERU PRESENTLY SUPPLIES A SMALL SHARE OF US NEEDS OF SEVERAL NON-FERROUS METALS, BUT THE RESPECTIVE PORTIONS MAY INCREASE SOMEWHAT OVER THE NEXT DECADE." (2) PAGE 8, PARA 2 REPLACE FIRST SENTENCE WITH "ACCORDING TO DEPARTMENT OF COMMERCE 1974 YEAR END FIGURES, US DIRECT INVESTMENT IN PERU

IS \$895 MILLION." (3) PAGE 8, PARA 5. CHANGE FIRST SENTENCE TO READ: "PERU DOES NOT PROVIDE THE US WITH MILITARY FACILITIES, BUT ITS GEOGRAPHIC LOCATION, BORDERING SEAS ALONG WEST CENTRAL SOUTH AMERICA, GIVES IT SOME STRATEGIC MILITARY IMPORTANCE."

B. AMBASSADOR'S OVERVIEW. SUGGEST REPLACING PARA 4 PAGE 9 OF CASP WITH FOLLOWING PARAGRAPHS OR INSERTING GIST IN DISCUSSION OF ISSUE 2. "THERE ARE TWO OUTSTANDING EXPROPRIATION DISPUTES, MARCONA AND GULF, AND THE POSSIBILITY OF SIMILAR PROBLEMS DEVELOPING WITH STAR-KIST AND POSSIBLY EVEN WITH SPCC. AT THE VERY LEAST WE MUST HAVE AN EARLY RESOLUTION OF THE MARCONA AND GULF CASES. THERE IS A CERTAIN AMOUNT OF US PRESTIGE INVOLVED IN THE MARCONA ISSUE GIVEN OUR DIRECT INVOLVEMENT IN THE NEGOTIATIONS. UNDER US LAW WE MUST HAVE A RESOLUTION OF THE GULF CASE AS WELL. THIS CASP HAS BEEN WRITTEN ON THE ASSUMPTION THAT BOTH THE MARCONA AND GULF ISSUES HAVE BEEN RESOLVED. SHOULD EITHER CASE NOT BE RESOLVED IN THE
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NEAR FUTURE WE WOULD HAVE TO SUBSTANTIALLY RETHINK THE CASP OBJECTIVES AND OUR RESOURCE ALLOCATIONS."

"A MINORITY VIEW IN THIS CASP HOLDS THAT THE TIMES, QUITE APART FROM THE MARCONA AND GULF ISSUES, REQUIRE AN OPEN SHOW OF DISPLEASURE TOWARD SOME OF THE MORE RADICAL POLICY LINES OF THIS GOVERNMENT. IF NEGOTIATIONS FAIL ON THE MARCONA ISSUE OR GULF REMAINS UNSETTLED, THIS MINORITY APPROACH -- OR SOME VARIANT OF IT -- MAY PREVAIL AUTOMATICALLY. HOWEVER, A POSTURE OF OPENNESS AND COOPERATION WITH THE PRESENT GOVERNMENT SEEMS AT PRESENT THE BEST COURSE FOR PROTECTING OUR LIMITED OBJECTIVES AND OUR STILL CONSIDERABLE ASSETS IN PERU."

C. ISSUE NO. 1, PAGES 12-15. ALTHOUGH AGREEING IN GENERAL WITH DISCREET APPROACH RECOMMENDED BY EMBASSY, THERE WAS GENERAL SUPPORT FOR AN APPROACH MIDWAY BETWEEN THE RECOMMENDED RESOLUTION AND THE ALTERNATIVE. PARTICIPANTS FELT THAT ON OCCASION THERE WAS NEED FOR US TO TAKE STRONG STANDS ON IMPORTANT ISSUES. ACTUALLY, RECOMMENDED RESOLUTION AND ALTERNATIVE APPEAR TO BE COMPATIBLE. OUR PRESENT POLICY INVOLVES BOTH APPROACHES. (1) PAGE 13, 2D "REASON FOR RECOMMENDATION". WE HAVE OTHER INVESTMENT DISPUTES WITH PERU: GULF AND STARKIST. MOREOVER, THE GOP TAX TRIBUNAL HAS JUST RETURNED AN ADVERSE RULING AGAINST SOUTHERN PERU COPPER CORPORATION ASSESSING NOT ONLY BACK TAXES BUT INTEREST AND PENALTIES -- APPROX. \$39MILLION. THIS RULING DOES NOT BODE WELL FOR FUTURE OF US INVESTMENTS IN PERU. (2) PAGE 14, 2D PARA OF "ALTERNATIVE", 3D SENTENCE: REPLACE "ELIMINATED" WITH "DRASTICALLY REDUCED".

D. ISSUE NO. 2. (1) PAGE 16, SECOND "ASSUMPTION", 2D SENTENCE: END SENTENCE AFTER "RELATIONS". REPLACE THE REMAINDER OF THE PARAGRAPH WITH: "MARCONA AND GULF SETTLEMENTS WILL NOT END OUR INVESTMENT PROBLEM WITH PERU (I.E. STARKIST AND SPCC)." ADD A SIXTH ASSUMPTION: "6. BILATERAL ASSISTANCE AND US CREDITS PROVIDE IMPORTANT ELEMENTS IN PROTECTING OUR ECONOMIC INTERESTS IN PERU." (2) REPLACE FIRST "RECOMMENDATION" WITH FOLLOWING: "1. AFTER THE MARCONA AND GULF CASES ARE RESOLVED, THE US SHOULD ENCOURAGE THE PERUVIANS TO THINK SERIOUSLY ABOUT IMPROVING
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THE IMAGE THEY PORTRAY ABROAD ON THE ACCEPTABILITY OF FOREIGN INVESTMENT. IT HAS BEEN DEMONSTRATED THAT WHEN THE RULES OF THE GAME ARE CLEAR, FOREIGN FIRMS ARE GENERALLY MORE LIKELY TO MAKE INVESTMENTS. A CLEAR POLICY PRONOUNCEMENT BY PERU ON WHAT TYPES OF FOREIGN INVESTMENT ARE ACCEPTABLE, THE FINANCIAL ARRANGEMENTS PERMISSABLE, AND THE PERCENT OF FOREIGN OWNERSHIP ALLOWABLE, WOULD GO A LONG WAY TOWARD IMPROVING THE INVESTMENT CLIMATE IN PERU. PRIVATE US FIRMS EXPRESSING INTEREST IN PERU SHOULD BE APPRAISED OF THE CURRENT SITUATION AND ENCOURAGED TO SPELL OUT IN DETAIL OPERATING ARRANGEMENTS FOR NEW VENTURES WHICH CAN ACCOMMODATE THE CHANGING POLITICAL REALITIES IN PERU, AND AT THE SAME TIME PROVIDE A SOUND BASIS FOR AN ONGOING BUSINESS RELATIONSHIP. (3) RECOMMENDATION NO. 5, PAGE 17. REPLACE WORDING AFTER "USG SHOULD" WITH: "CONSIDER A PL 480, TITLE I, CONTINGENCY PROGRAM WHICH WILL PROVIDE SUPPORT FOR PRIORITY DEVELOPMENT PROGRAMS OF A SIGNIFICANT SELF-HELP NATURE. A PL 480 TITLE I PROGRAM FOR PERU WOULD REQUIRE A STRONG BALANCE OF PAYMENTS JUSTIFICATION. (4) ADD A SEVENTH RECOMMENDATION: "7. PERU SHOULD BE MADE AWARE THAT WITHOUT A LONG-TERM ECONOMIC PLAN TO RESTORE INTERNAL AND

EXTERNAL RESOURCE BALANCES, US ASSISTANCE WILL BECOME INCREASINGLY DIFFICULT TO JUSTIFY. IN FACT, THE US WOULD HAVE TO SERIOUSLY QUESTION THE BASIC UTILITY OF PROVIDING ANY FURTHER ASSISTANCE TO PERU UNLESS THE GOVERNMENT FULLY ADDRESSES THIS PROBLEM. FURTHER THE PERUVIANS SHOULD BE INFORMED THAT THE US IS VERY INTERESTED IN SELF-HELP EFFORTS TO BRING ABOUT A BALANCE BETWEEN RESOURCE DEMANDS AND AVAILABILITY. IT SHOULD BE NOTED THAT SEVERAL US BANKS ARE NOT MAKING NEW LOANS TO PERU UNTIL THEY HAVE SEEN A PLAN OF ACTION TO AMELIORATE THE CURRENT SITUATION."

E. ISSUE NO. 3, RECOMMENDATION 2, PAGE 18. SEVERAL PARTICIPANTS QUESTIONED CROP SUBSTITUTION. FULLER JUSTIFICATION OF THIS RECOMMENDATION IS NEEDED, IF THIS PROGRAM IS TO BE SUPPORTED. WE WOULD SUGGEST JUSTIFICATION BE MADE IN NEXT NCAP.

F. PAGE 21. TREASURY REQUESTS REPLACING "OBJECTIVE 3"

WITH FOLLOWING: "OBJECTIVE 3: WHEN THE MARCONA AND GULF
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DISPUTES ARE RESOLVED ENCOURAGE THE PERUVIAN GOVERNMENT TO ISSUE A WHITE PAPER ON FOREIGN INVESTMENT WHICH CLEARLY GIVES GUIDELINES TO INVESTORS." ALSO ADD: OBJECTIVE 4: ENCOURAGE THE GOP TO ADDRESS THE CURRENT ECONOMIC PROBLEMS WITH A LONG-TERM PLAN ON RESTORING BALANCE TO THE INTERNAL AND EXTERNAL RESOURCE SECTORS.

G. WORLD ORDER. ENCOURAGE REGIONAL ARMS LIMITATIONS AND COOPERATION. PAGE 21. (1) THERE IS GENERAL CONCERN AT PERUVIAN ARMS BUYING, WHICH HAS INCREASED TENSIONS WITHIN THE REGION AND, TO THE EXTENT CHILE CAN BUY ARMS, STIMULATED A LOCAL ARMS RACE. IN LIGHT OF PERU'S CURRENT ECONOMIC WOES, IT IS BECOMING MORE DIFFICULT TO CERTIFY THAT PERU IS NOT SPENDING MONEY ON ARMS NEEDED FOR DEVELOPMENT. FOLLOWING STATEMENT SHOULD BE ADDED AS FINAL PARAGRAPH TO PAGE 21. "IN VIEW OF THE CURRENT BALANCE OF PAYMENTS CRISIS, WE ARE CONCERNED THAT CONTINUED HIGH LEVELS OF MILITARY IMPORTS ARE CURTAILING PERU'S ABILITY TO IMPORT EQUIPMENT, RAW MATERIALS, AND AGRICULTURAL INPUTS ESSENTIAL TO DEVELOPMENT. AT THE SAME TIME, PERU CONTINUES TO MOBILIZE SUBSTANTIAL DOMESTIC RESOURCES FOR ECONOMIC AND SOCIAL DEVELOPMENT DESPITE HIGH DEFENSE EXPENDITURES. ON BALANCE THEREFORE, WE BELIEVE IT POSSIBLE THIS YEAR TO CERTIFY PERU'S ELIGIBILITY FOR FOREIGN ASSISTANCE UNDER SECTION 620 (S) OF THE FOREIGN ASSISTANCE ACT, WHICH REQUIRES AID TO MAKE AN ANNUAL DETERMINATION THAT MILITARY SPENDING IN AN AID-RECIPIENT COUNTRY IS NOT SO HIGH AS TO DETRACT SIGNIFICANTLY FROM ECONOMIC DEVELOPMENT EFFORTS. IN THIS REGARD PERU PRESENTS A DIFFICULT CASE WHICH WILL BEAR CLOSE REVIEW IN FUTURE YEARS." (2) PAGE 21, PARA 4, 7TH LINE. REPLACE "AGGRESSIVE" WITH "OFFENSIVE".

H. PROPOSED ACTION PLAN. (1) PAGE 22 UNDER "OBJECTIVE 2",
SUBSTITUTE "IMET" FOR "MAP-T". ALSO CHANGE ESTIMATED FY 78
IMETP FIGURE TO READ "800".

I. ANNEX A, TABLE I, PAGE 27 UNDER DOD, SUBSTITUTE
FOLLOWING FIGURES:

--	FY 75	FY 76	FY 7T	FY 77	FY 78
--	ACTUAL	EST	EST	PLN	PLN
SECRET					

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FMS-CREDIT 20,500 20,000 - 20,000 20,000

IMETP 852 940 375 900 800

J. UNDER IAGS, SUBSTITUTE FOLLOWING FIGURES:

--	FY 75	FY 76	FY 7T	FY 77	FY 78
--	ACTUAL	EST	EST	PLN	PLN
PROGRAM	133	128	39	94	112

ADMINISTRATIVE 104 105 26 115 92

3. SUGGEST CHANGING CLASSIFICATION OF CASP TO CONFIDENTIAL.
TREASURY, IN PARTICULAR, QUESTIONS WHETHER CONTENTS OF
DOCUMENT MEET TEST FOR "SECRET" CLASSIFICATION AS OUTLINED
EO11652, SECTION 1, PARAGRAPH B. TREASURY REQUESTS EMB-
ASSY REEXAMINE THE CLASSIFICATION CATEGORY PURSUANT TO
EO11652, SECTION 4, PARAGRAPH D.

ROBINSON

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<< END OF DOCUMENT >>

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